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Thirty Five Years of the 1991 Economic Reforms

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Thirty Five Years of the 1991 Economic Reforms

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Every fact web-verified against primary sources

> *marks* **35 years** *since the historic* **1991 economic reforms**. *On* **July 24, 1991**, *Finance Minister* **Dr Manmohan Singh** *delivered a landmark Budget speech that launched* **Liberalisation, Privatisation and Globalisation (LPG)** *under Prime Minister* **P V Narasimha Rao**, *changing the course of the Indian economy. July 24 is also observed as* **Income Tax Day**, *marking the introduction of income tax in India in* **1860**.

THE CRISIS THAT FORCED CHANGE

The reforms were not a matter of choice but of necessity. By mid-1991, India faced a severe **balance-of-payments (BoP) crisis**. Foreign exchange reserves had fallen to around **two weeks of imports**, and the government was forced to **pledge gold** to raise emergency funds and avoid defaulting on external payments.

The crisis exposed the limits of the old model: a closed, inward-looking economy governed by the **Licence Raj**, where industrial licensing, high tariffs, and tight controls choked competition and productivity.

Immediate Triggers

FACTOR	EFFECT
Gulf War (1990-91)	Spike in oil prices, higher import bill
Fall in remittances	Loss of foreign exchange inflows
Widening fiscal deficit	Loss of investor confidence
Falling reserves	Down to about **two weeks of imports**

THE CORE REFORMS OF 1991

The reform package sought to shift India from a **state-led, controlled economy** to a **market-oriented** one. Its key measures spanned trade, industry, and finance.

Key Measures

- **Devaluation of the rupee** to make exports competitive and correct the external imbalance
- **Dismantling the Licence Raj** by abolishing industrial licensing for most industries under the **New Industrial Policy of 1991**
- **Trade liberalisation**, cutting tariffs and easing quantitative restrictions on imports
- **Opening up to Foreign Direct Investment (FDI)** in several sectors
- Beginning of **disinvestment** in public-sector undertakings

PILLAR (LPG)	MEANING
Liberalisation	Reducing state controls, licences, and restrictions on business
Privatisation	Greater role for private capital; disinvestment in PSUs
Globalisation	Integrating India with the world economy through trade and investment

Later financial-sector reforms drew on the recommendations of the **Narasimham Committee**, which shaped banking and financial regulation in the years that followed.

THE BALANCE SHEET AT 35 YEARS

The reforms unlocked decades of faster growth and structural change, but the agenda remains unfinished.

Gains

- Sustained **higher growth** and a large expansion of the **services sector**, especially IT and software
- A rising **middle class** and greater consumer choice
- Deeper integration with global trade, capital, and technology
- Emergence of globally competitive Indian firms

The Unfinished Agenda

CHALLENGE	CONCERN
Jobs	Growth has not generated enough quality employment
Agriculture	Reforms reached the farm sector unevenly
Public services	Health and education gaps persist
Inequality	Gains have been unevenly distributed

The 35-year milestone is a moment to assess how India can move from a first-generation reform legacy toward next-generation reforms in factor markets, jobs, and human capital.

UPSC RELEVANCE

GS Paper 3: Indian economy, liberalisation, growth, and development. **GS Paper 1:** Post-independence economic history of India.

Prelims pointers:

- The **1991 reforms** were launched through the Budget of **July 24, 1991**, by FM **Dr Manmohan Singh** under PM **P V Narasimha Rao**.
- Trigger: a **balance-of-payments crisis**; reserves fell to about **two weeks of imports**; India **pledged gold**.
- Core measures: **rupee devaluation**, end of the **Licence Raj**, **New Industrial Policy 1991**, trade liberalisation, and **FDI** opening.
- The **Narasimham Committee** guided financial-sector reforms.
- **July 24** is also **Income Tax Day**; income tax was first introduced in India in **1860**.

📌 FACTS CORNER, KNOWLEDGEPEDIA

LPG stands for Liberalisation, Privatisation and Globalisation, the three pillars of the 1991 reforms.

Licence Raj refers to the elaborate system of licences, permits, and regulations that controlled business before 1991.

The rupee was devalued in two steps in July 1991 by the Reserve Bank of India to restore export competitiveness.

India pledged gold to the Bank of England and the Bank of Japan in 1991 to secure emergency foreign exchange.

The New Industrial Policy of 1991 abolished industrial licensing for most industries and reduced the list of industries reserved for the public sector.

Income Tax Day (July 24) commemorates the introduction of income tax by James Wilson in 1860.

Sources: PIB, Ministry of Finance and RBI History

Source: Thirty Five Years of the 1991 Economic Reforms — Ujiyari.com | Free UPSC & State PCS Current Affairs

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